



Title

Capitalization Thresholds for Capital Assets

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FIN 12-1 (AEP)

Department/Issuing Agency

Executive Services – Finance and Business Operations Division

Effective Date.

FEBRUARY 4, 2008

Approved

1.0 SUBJECT TITLE:**1.1 EFFECTIVE DATE:** 02/04/2008**1.2 TYPE OF ACTION:** New**1.3 KEY WORDS:** Capitalization threshold; Capital assets; Controllable items

2.0 PURPOSE: To establish capitalization thresholds for capital assets; to establish responsibility for tracking controllable items that fall below the capitalization threshold; and, to provide guidance for future issuance of capital assets policies and procedures.

Background:

2.1 The Government Finance Officers Association recommends that capitalization thresholds for governments never be less than \$5,000. A survey of counties with about the same population as King County reveals that a high majority use \$5,000.

3.0 ORGANIZATIONS AFFECTED: All King County Executive Departments.

4.0 REFERENCES:

4.1 Governmental Finance Officer's Association (GFOA) Recommended Practice: "Establishing Appropriate Capitalization Thresholds for Capital Assets (1997, 2001, and 2006) (GAAFR)."

4.2 K.C.C. 4.56.030. "Inventory documentation and surplus personal property sales procedures."

5.0 DEFINITIONS:

5.1 "Buildings": The capital asset class that includes all buildings that are owned by the County. Components of a building, not normally replaced, are considered part of the building.

This class also includes building improvements such as subsequent additions of a new wing or extension, and also structural renovations and improvements.

5.2 "Capital asset": Tangible or intangible assets that meet all three of the following: a) it must have an initial useful life that extends beyond a single reporting period, i.e., one year; b) it must be used in the operations of the entity; and, c) it must not be specifically excluded by policy, e.g., capitalization threshold.

5.3 "Capitalization threshold": The dollar value at which a government elects to capitalize its capital assets for financial reporting.

5.4 "Capitalize": To report capital outlays as capital assets in the statement of net assets or balance sheet.

5.5 "Controllable items": Items that may require tracking due to one or more of the following: a) to ensure legal compliance; b) to protect public safety and avoid potential liability, e.g. weapons; or c) to reduce risk of loss.

5.6 "Fair (market) value": Estimated dollar amount at which an asset might exchange between a willing buyer and a willing seller, neither being under compulsion, each having reasonable knowledge of all relevant facts, and with equity to both. "Estimated fair value" at acquisition may be obtained from manufacturers' catalogs or price quotes in periodicals, from objective appraisals, or similar sources. Estimated fair value is used in valuing donations.

5.7 "Historical cost": The original cost of an asset at the time of acquisition including all ancillary charges (e.g., freight, installation, site preparation, etc.) to bring the capital asset to its intended location and to get it ready for its intended use. "Estimated historical cost" is a related concept which employs an alternative cost basis (e.g. current replacement cost) that is adjusted by an economic index to arrive at an estimate of the original historical cost.

5.8 "Improvements other than buildings": The capital asset class that includes depreciable improvements to land other than those related to site preparation or conversion to a public road. This also includes "infrastructure"-type assets owned by enterprise funds (e.g. airport runways, retaining walls, etc.)

5.9 "Infrastructure": Capital assets that are stationary or immovable in nature and that have useful lives that can be preserved over a longer time period than most capital assets. The County currently reports only roads and bridges as general infrastructure.

5.10 "Internally generated software": Software developed in-house using County workforce or by a third party contractor on behalf of the County; or purchased from a vendor but modified or customized by the County using more than minimal incremental effort before being put into service.

5.11 "Land and land rights": The capital asset class which includes all land and rights to land acquired by the County for its own use. Land can be acquired as fee simple or land rights may be purchased without the transfer of title. The latter may include regular easements, road right-of-way, conservation easements, development rights, etc. Tax title properties are merely held in trust by the County.

5.12 "Machinery and Equipment": The class of capital assets which generally includes all movable personal property but also includes plant and other fixed equipment.

5.13 "System software": Includes purchased special application software and internally generated software. This does not include general software applications that are needed for basic computer operations or performing routine office tasks, the cost of which are normally bundled with the hardware cost or expensed.

6.0 POLICIES:

6.1 Capitalization thresholds for applicable capital asset classes are established as follows:

Machinery and Equipment	\$ 5,000
Buildings and Building Improvements	50,000
Improvements Other Than Buildings	50,000
System software (including internally generated)	25,000

The threshold amounts are to be applied to the historical cost of capital assets at the time of acquisition. Acquisition includes direct purchase, construction, donation or contribution, capital lease, or any other means by which rights or title to property transfer to the county. Land and governmental infrastructure are not subject to capitalization thresholds.

6.2 The capitalization thresholds are generally applied to individual items (per unit basis) and not to the total cost of grouped or combined acquisitions.

6.3 The change in capitalization threshold shall be applied to the County's existing capital assets inventory retrospectively. All capital assets having cost or assigned values that fall below the corresponding thresholds shall be removed from the capital assets inventory and the general ledger. All "controllable" equipment that falls below the threshold shall be moved to a non-capital inventory for alternative tracking.

6.4 Adequate controls must still be maintained for non-capitalized but "controllable" items of personal property. Weapons shall continue to be controlled countywide to comply with county code. These and other items that may later on be identified as countywide "controllable" by the Fleet Administration Division – Personal Property section shall be tracked in the central capital assets system but as separate expense items. Other items that individual departments may want to control, outside of those identified as "controllable"

countywide, may be tracked at the department level only in accordance with guidelines established by Fleet Administration Division – Personal Property Section.

6.5 Facilities Management Division – Real Estate Services Section shall continue to maintain official property records for all usable buildings including those that fall below the capitalization thresholds. Facilities Management Division – Building Services Section shall continue to track all buildings that they maintain which may include minor buildings in County-owned parks.

6.6 The Finance and Business Operations Division (FBOD) – Financial Management Section shall develop comprehensive policies and procedures for capital assets accounting which shall be published in a capital assets manual. Specific policies and procedures for all areas of capital assets accounting shall be provided in the capital assets manual. The manual shall include the capitalization thresholds established herein. Any future changes to these threshold levels, including the setting of new thresholds for other capital asset classes, will be reflected in the manual and communicated in a timely manner to all agencies.

7.0 PROCEDURES:

Action By: Finance and Business Operations Division – Financial Management Section

Action:

7.1 Purge the affected capital assets inventory of all items that fall below the established capitalization thresholds and adjust the general ledger accordingly.

7.2 Modify selection criteria in automated systems that capture capital asset purchases to account for the new thresholds.

7.3 Prepare comprehensive policies and procedures for accounting for capital assets and publish in a capital assets manual.

7.4 Assist Fleet Administration Division – Personal Property Section and individual divisions in setting up systems for capturing information on non-capitalized but “controllable” equipment.

7.5 Coordinate with Fleet Administration Division – Personal Property Section in amending KCC 4.56.030 to make it consistent with the definition of capitalization thresholds as used in financial accounting.

Action By: Fleet Administration Division – Personal Property Section

Action:

7.6 Issue guidelines for tracking all non-capitalized “controllable” items.

7.7 Determine which categories of personal property should be “controllable” at the countywide level. Coordinate with individual departments on the identification and tracking procedures for other items that may be controllable at the department level.

7.8 Coordinate with Finance and Business Operations – Financial Management on the purging of non-capital and non-controllable items from the existing inventory.

Action By: King County Executive Office – Office of Management and Budget

Action:

7.9 Modify budget definitions and budget preparation procedures and instructions related to capital expenditures to account for the capitalization threshold increase.

Action By: FBOD – Procurement and Contract Services Section

Action:

7.10 Modify purchasing definitions and purchase order or contract preparation procedures and instructions related to capital expenditures to account for the threshold increase.

Action By: All Agencies

Action:

7.11 Use the appropriate capital expenditure or expense accounts (56xxx) for capital assets purchases that meet the established capitalization levels in their budgets, requisitions, purchase order contracts, and source documents (Refer to ARMS or IBIS Chart of Accounts).

7.12 Modify procedures in place for the tagging of personal property to account for the new threshold amount. Adhere to Fleet Administration – Personal Property section guidelines for the tracking, inventory, and reporting of “controllable” items.

8.0 RESPONSIBILITIES:

8.1 All Agencies

8.1.1 Ensure that all capital assets that meet the new thresholds are correctly recorded in the County’s capital assets system. Perform tracking of agency-owned “controllable” assets.

8.1.2 Ensure that all capital asset acquisitions are budgeted and paid using the appropriate expenditure or expense accounts.

8.2 Finance and Business Operations Division - Financial Management Section

8.2.1 Ensure that the new capitalization thresholds are applied consistently.

8.2.2 Develop and maintain comprehensive policy and procedures for capital assets.

8.3 Fleet Management Administration – Personal Property Section

8.3.1 Develop guidelines for the tracking and inventory of all “controllable” personal property.

8.3.2 Determine which categories of personal property should be “controllable” countywide. Coordinate with individual departments on the identification and tracking of other items controllable at the department level.

8.4 King County Executive Office – Office of Management and Budget

8.4.1 Modify capital budget definitions and budget preparation procedures and instructions.

8.1.2 Ensure that all capital asset acquisitions are budgeted and paid using the appropriate expenditure or expense accounts.

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8.3 Fleet Management Administration – Personal Property Section

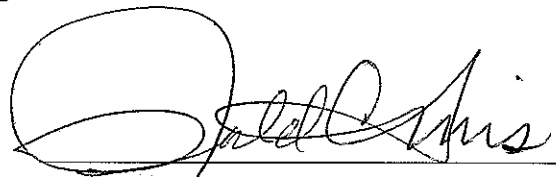
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Dated this 26 day of January, 2008



Ron Sims
King County Executive

Attest:

Anne Bruskland, Interim Director
Records and Licensing Services Division